

**Executive Summary**  
**Section 2207 Report to Congress**  
**April 2008**

Building on the security gains achieved by Iraqi and Coalition military forces, the U.S. Mission continued to work with the Government of Iraq and its other international partners to enable Iraq to take responsibility for its own reconstruction. U.S. assistance to Iraq in this reporting quarter (from January 1 to March 31) focused on helping build the Iraqi government's capacity to promote economic development and provide services to the Iraqi people. Progress continued toward the completion of the remaining reconstruction projects financed by the Iraq Relief and Reconstruction Fund (IRRF). Fellow donor governments also provided substantial assistance this quarter, including significant progress toward reducing the level of Iraq's bilateral debt.

**Iraq Relief and Reconstruction Fund Summary**

The vast majority of IRRF-funded reconstruction projects are now complete. To date, more than 5,400 construction projects and more than 13,700 non-construction projects have been completed, the latter comprising mostly smaller scale projects funded through USAID in democracy building, economic growth, health, and education.

More than 102 projects were completed this quarter using IRRF funding. Ninety-six percent of the funds appropriated to IRRF have been obligated to specific projects, with the remainder available only for claims and adjustments related to existing contracts. As of March 31, 92 percent of IRRF funds have been disbursed. Of the remaining obligated but undisbursed funds, the majority are obligated to the electricity sector (\$252 million remaining) and the water sector (\$155 million). Authority to re-program unexpired IRRF funds will expire on September 30.

<b>Sector</b>	<b>Key Metrics/Completions</b>
<b>Electricity</b>	<ul style="list-style-type: none"><li>▪ Average daily hours of power after meeting demand from essential services for first quarter 2008:<ul style="list-style-type: none"><li>• Nationwide: 10.3 hours (down from 12.2 hours last quarter and up from 9.3 hours year-earlier quarter)</li><li>• Baghdad: 8.3 hours (down from 9.0 hours last quarter and up from 5.4 year-earlier quarter)</li><li>• Basrah: 16.6 hours (down from 16.9 hours last quarter and up from 11.3 year-earlier quarter)</li></ul></li><li>▪ Average daily electricity supply reached 95,500 megawatts (MW), a post-war record for the January-March quarter.</li><li>▪ At 4,100 MW, average daily peak supply also reached a post-war record for the quarter.</li></ul>
<b>Oil</b>	<ul style="list-style-type: none"><li>▪ 2.36 million barrels per day (mbd) quarterly average crude oil production (down from 2.38 mbd last quarter)</li><li>▪ 1.93 million barrels per day oil exports (up from 1.90 million barrels per day last quarter)</li></ul>

<b>Health</b>	▪ Completed additional Primary Healthcare Centers in Wasit, Babil, Najaf, Thi Qar, Baghdad, Diyala, Basrah, and Karbala
<b>Security and Justice</b>	▪ Completed construction of an Iraqi secure document storage facility and a police station in Najaf
<b>Transportation and Communications</b>	▪ Completed repairs to Iraq Telecommunications and Post Corporation (ITPC) telephone switching buildings

Key accomplishments this quarter include:

- **Health:** U.S. efforts continue to focus on transferring U.S.-funded facilities to the Ministry of Health, delivering key supplies and medicines to medical facilities, and training core health staff. Of the total 136 Primary Healthcare Centers (PHC) planned to be constructed across the country, 68 PHCs are now open to the public, 29 more than were reported open at the end of last quarter. Construction of an additional 38 clinics is complete.
- **Electricity:** Electricity supply now meets approximately 60 percent of demand nationally and in Baghdad, but rapidly growing demand continues to outpace growth in supply. Since 2004, an additional 4,200 megawatt capacity has been added or brought back online to the network through the installation of new facilities and the rehabilitation of existing generators. Enhanced security has permitted critical 400 KV line repairs to be completed on three transmission lines that were down much of 2007: Baghdad South to Mussayib (Thermal); Baghdad South to Baghdad West; and Baiji to Baghdad West.
- Many new and overhauled generation plants are scheduled to become operational in the near future. By the beginning of the summer, an additional 800 MW of new and previously unavailable rehabilitated power may be added to the grid. By the end of 2008, an additional 2,600 MW of electricity is expected to be added to the national grid (inclusive of the 800 MW from the summer time frame), meeting the equivalent of demand from an additional two million households.

### **Economic Support Funds (ESF) Summary**

Programs funded with ESF funds continue to support capacity development programs as well as Iraqi decentralization efforts by empowering provincial and municipal authorities to build strong institutions. Provincial and local governments' ability to execute their budget is increasing. Iraqi bodies such as the Provincial Reconstruction Development Councils serve as focal points for the efforts of local leaders and Provincial Reconstruction Teams (PRTs) to rehabilitate essential services. Microfinance and employment generation programs are providing economic opportunities in provincial areas and aiding in Iraq's transition to a sustainable economy. Democracy programs enhance the country's capacity to conduct credible elections and help underrepresented groups participate in the governance process.

### **Key ESF program accomplishments this quarter include:**

- **PRT Quick Response Fund (QRF):** As part of the PRT program, the Quick Response Fund promotes economic and social development within Iraqi provinces. The fund is administered by PRT staff who identify worthy projects at the local level that build the capacity of local neighborhood and government officials to deliver services transparently, empower women and youth, and support civil society and small businesses. To date, 112 grant and 630 procurement proposals have been approved, with a total value of more than \$27 million. These projects include construction of a tourism center in Najaf, veterinary clinical competency training, as well as efforts in improving the lives of women and children.
- **Provincial Reconstruction Development Councils (PRDC):** PRDC funds support smaller-scale provincial-level infrastructure projects. This quarter, 25 projects were completed and the Embassy approved \$63.7 million in funds for future projects in Iraq's 18 provinces. Approved projects are either in the procurement process or have already been awarded.
- **Capacity Development:** The U.S. Mission has increased the number of the advisors supporting capacity development in Iraqi ministries. Seventy-four additional advisors requested by Ambassador Crocker and General Petraeus are on the ground and contributing to capacity building efforts. Through USAID's *Tatweer* program, 8,717 Iraqi civil servants have been trained since the program's inception in skills essential to public administration, including fiscal planning, personnel management, project management, leadership and communication, and use of information technology.
- **Ambassador's Targeted Development Program:** The Targeted Development Program provides the U.S. Embassy and the Ambassador with a valuable tool for supporting economic and social initiatives in areas of conflict in Iraq. The program awarded eight grants to non-governmental organizations totaling more than \$8 million. A second round of 46 proposals is currently under review.
- **Local Governance Program:** USAID's Local Governance Program (LGP) works closely with Iraqis in all 18 governorates to provide technical assistance, training, and equipment across Iraq in pursuit of a rapid "jump start" of essential services for water, sewerage, and electricity and for infrastructure improvements. LGP worked closely with PRTs to assist local leaders in reaching a significant provincial planning achievement this quarter. For the first time, 17 of Iraq's 18 provinces each submitted a Provincial Development Strategy (PDS) to the Ministry of Planning at the "National PDS Symposium" in March. Each PDS serves as a framework document for provincial projects and future provincial budgets.
- **Microfinance:** USAID's microfinance program provides essential capital to entrepreneurs who lack access to credit. Loans averaging \$1,400 are paid back over a year with 15-18 percent interest. Repayment is high at over 98 percent and demand for credit continues to outstrip supply. As of January 2008, USAID has 26,817 outstanding loans (worth more than \$34 million) across all 18 provinces. Since 2004, U.S. government-supported microfinance initiatives have distributed more than 70,000 loans (totaling \$150 million) nationwide.

- **Refugee Assistance:** Using fund sources other than ESF, the U.S. government continues to provide significant resources to support humanitarian assistance for internally and externally displaced Iraqis and Iraqi conflict victims. This quarter, the United States contributed resources to provide food, water, and health care to Iraqis displaced within and outside of Iraq, including resources provided to the United Nations High Commissioner for Refugees and the International Committee of the Red Cross.

### **Provincial Reconstruction Teams**

PRTs assist local leaders in providing essential services and rebuilding their communities, with the intent of improving the lives of Iraqi citizens and making counter-insurgency efforts more effective. In the field, PRT officials work at the local district and neighborhood levels and are distributed across twelve PRTs, six Provincial Support Teams (PSTs), and thirteen embedded PRTs (ePRTs) that are co-located with Brigade Combat Teams.

Significant local successes were seen across the country in PRT work with Provincial Councils and non-governmental organizations. For instance, the PRT in Anbar province helped the Provincial Council better administer a capital budget of \$107 million, which resulted in the central government increasing the provincial government's annual funding allotment. Also, a Women's Coalition Center, organized by the Karbala PST, was established as an eventual self-financing, non-profit independent center for education and training.

### **The Iraqi Budget and Budget Execution**

Iraq's Council of Representatives (CoR) approved Iraq's 2008 budget law this quarter. The budget provides clear evidence that Iraq's political leaders are making use of their country's growing resources to fund its reconstruction and to promote sustainable economic progress. The budget also reflects compromises among Iraq's major political parties on issues including security, investment, capital funds allocated to the provinces, and funding for several key programs necessary to promote economic development and support security gains.

The 2008 budget projects \$42.5 billion in revenues and allocates \$49.9 billion for expenditures. Revenues in the budget are based primarily on oil revenue, which were initially projected to be \$35.5 billion. Budgeted expenditures include allocations of \$9 billion to security ministries and \$13.2 billion for capital projects and reconstruction – a 23 percent increase and a 29 percent increase, respectively, over 2007 allocations in these areas. The Government of Iraq (GOI) also plans to issue a supplemental budget of at least \$5 billion in the coming months, some of which will be allocated for capital reconstruction spending.

In 2007, Iraq's national ministries and provincial governments demonstrated an increasing capacity to use the nation's own considerable resources to meet the needs of the Iraqi people by developing, committing, and spending their own capital reconstruction budgets. We expect this trend to continue in 2008, given security improvements and improvements in technical capacity at all levels of government, but continued assistance is needed to address impediments to capital budget execution. Impediments persist at all levels, including the security environment, corruption, fear of corruption charges, unclear rules and responsibilities, inconsistent

communication between provincial governments and the central government, and, in many cases, a lack of technical expertise, but improvements have been significant.

Complete GOI capital expenditure data for 2007 is not yet available, though the GOI has announced a 63 percent overall capital budget execution rate in 2007, which includes ministries, provinces, and the Kurdistan Regional Government (KRG). The most recent Ministry of Finance special report on capital expenditures, which provides detailed expenditure information through November 30, indicated that the Iraqis had spent over \$4.7 billion of their own money on capital projects and reconstruction at the national, regional, and provincial levels in 2007. Through November 30, central government ministries spent 40 percent of their 2007 capital budgets, the KRG spent 95 percent of its 2007 capital budget, and provincial governments spent 31 percent of their 2007 capital budgets. Some of the capital spending in this report may include open letters of credit, which reflect large and binding commitments of funds that will be disbursed in future months against the delivery of major capital purchases.

**2007 Government of Iraq Ministerial Capital Budget Execution  
Year to Date as of November 30, Calendar Year 2007**

<b>Ministry</b>	<b>Adjusted Capital Budget Allocation (millions USD)</b>	<b>Capital Budget Expended (millions USD)</b>	<b>Capital Budget Expended (percentage)</b>
Communication	153	105	69%
Education	291	88	30%
Electricity	1,385	503	36%
Health	342	21	6%
Housing & Construction	335	190	57%
Oil	2,210	1,073	49%
Public Works	437	218	50%
Water Resources	262	151	58%
All Other Ministries	948	215	23%
<b>ALL MINISTRIES</b>	<b>6,363</b>	<b>2,564</b>	<b>40%</b>

**Source: Iraqi Ministry of Finance, Special Report on Capital Expenditures  
Data through November 30, 2007.**

**Note: The ministries specifically listed in this chart represent 85 percent of the total  
ministerial capital budget allocation.**

**2007 Iraqi Provincial Capital Budget Execution  
Year to Date as of November 30, Calendar Year 2007**

<b>Province</b>	<b>Adjusted Capital Budget Allocation (millions USD)</b>	<b>Capital Budget Expended (millions USD)</b>	<b>Capital Budget Expended (percentage)</b>
Anbar	107	4	4%
Babil	127	62	49%
Baghdad	560	174	31%
Basrah	195	41	21%
Dhi Qar	138	55	40%
Diyala	110	n/a	n/a
Karbala	71	29	41%
Maysan	76	39	51%
Muthana	52	10	19%
Najaf	88	56	64%
Ninawa	226	58	26%
Qadissiya	64	25	39%
Salah ad Din	93	32	34%
Tameem	91	31	34%
Wasit	83	34	41%
<b>TOTAL</b>	<b>2,081</b>	<b>650</b>	<b>31%</b>

**Source: Iraqi Ministry of Finance, Special Report on Capital Expenditures  
Data through November 30, 2007. Diyala provincial government not reporting.**

In an effort to further improve capital budget execution, the Council of Ministers agreed to new regulations in January 2008 that approve the creation of intra-ministerial contracting committees and increasing the amount at which each of these committees is authorized to approve contracts. U.S. embassy officials and Provincial Reconstruction Teams also continue to work with central government and provincial officials to build technical capacity on budgeting and budget execution. Pending the reallocation of funding, the Department of Treasury's Office of Technical Assistance plans to send 12 additional advisors to Iraq in 2008, several of whom will focus exclusively on budget execution.

### **Other Donor Assistance and Debt Reduction**

The International Compact with Iraq (ICI) continues to develop as the central mechanism for the United States and other international donors to coordinate their contributions to Iraqi reconstruction and humanitarian relief. At an informal meeting of donors held in Italy in January, a number of measures were decided to support the Iraqi-led ICI Secretariat in its efforts to coordinate implementation of ICI goals and objectives. These included providing resources for additional technical assistance from the International Reconstruction Fund Facility for Iraq and installing videoconferencing equipment in key locations to allow the ICI Thematic Working Groups to meet more readily in spite of security or logistical impediments. The ICI Secretariat is drafting its first annual progress report for presentation to ministers from the ICI member

countries in Stockholm on May 29 at an event that will mark the first anniversary of the ICI's launch in Sharm el-Sheikh, Egypt.

This quarter, Iraq and Russia reached an agreement to cancel \$12 billion of the \$12.9 billion owed by Iraq to Russia. To date, creditors have agreed to reduce Iraq's Saddam-era debts by \$66.5 billion, including reductions of \$42.3 billion by Paris Club countries, \$8.2 billion by non-Paris Club countries, and \$16.0 billion by commercial creditors. The debts remaining to be reduced are estimated between \$50 billion and \$100 billion. Technical discussions between Iraq and its remaining creditors are needed in order to determine the precise amounts still owed.

Donor pledges to Iraq (excluding the United States) now total \$15.89 billion, including \$5.14 billion in pledges of grants and technical assistance and \$10.75 billion in soft loans or loan facilities. Total grants and other assistance delivered to Iraq since 2003 reached about \$4.86 billion this quarter, bringing to 94.5 percent the level of fulfilled assistance pledges. About \$3.12 billion have been committed in loans, or 29 percent of total loan pledges.